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**1981  
ANNUAL  
REPORT**



***MIDVALE PETROLEUMS LTD.***

## **CORPORATE INFORMATION**

Midvale Petroleum Ltd.,  
403 Canada Trust Building,  
239 Eighth Avenue, S.W.,  
Calgary, Alberta  
T2P 1B9

### **OFFICERS**

David B. Crabbe,  
President

Susan A. Cummings,  
Secretary-Treasurer

### **DIRECTORS**

David B. Crabbe  
Susan A. Cummings  
Kenneth Dandy

### **AUDITORS**

Thorne Riddell,  
1200 Bow Valley Square 2,  
205 Fifth Avenue, S.W.,  
Calgary, Alberta  
T2P 2W4

### **TRANSFER AGENT & REGISTRAR**

Canada Trust Company,  
901 West Pender Street,  
Vancouver, B.C.  
V6C 1L7

### **SOLICITORS**

DuMoulin Black,  
1004, 595 Howe Street,  
Vancouver, B.C.  
V6C 2T5

### **BANK**

Bank of Montreal,  
140 Eighth Avenue, S.W.,  
Calgary, Alberta  
T2P 1B3

### **STOCK EXCHANGE**

Vancouver Stock Exchange —  
Resource Section

### **TRADING SYMBOL**

M V P



## To the Shareholders:

It is with great pleasure that I am able to present to the Shareholders of Midvale Petroleum Ltd., our First Annual Report. The Company was incorporated on March 6, 1980 and since that time, has been actively participating in oil and gas prospects located in Oklahoma, Texas and Illinois.

On September 9, 1980, the Superintendent of Brokers of the Province of British Columbia accepted our Prospectus dated April 30, 1980 to issue 400,000 common shares of Midvale Petroleum Ltd. to the public at \$1.00 per share. The funds raised by the Company from this offering were used primarily for the exploration and development of an oil prospect in Illinois which subsequently resulted in tremendous success for the Company.

The Company's shares were listed on the Vancouver Curb Exchange and commenced trading on December 11, 1980 under the trading symbol MVP. Subsequently, the shares of the Company were transferred to the Resource Section of the Vancouver Stock Exchange.

Since incorporation, Midvale has been extremely successful in the exploration and development of its oil and gas prospects through its wholly-owned U.S. subsidiary, Midvale Petroleum, Inc. The Company has been involved in the drilling of 18 wells which have resulted in 13 oil wells, 3 oil and gas wells and 2 wells which were abandoned as being non-productive for an overall success ratio of 89%.

The Company's performance during the first year of operation reflects tremendous progress in cash flow and earnings in addition to its drilling program. Since this is the Company's first year of operation, it must be noted that the Consolidated Financial Statements for the year ended March 31, 1981 only reflect production revenue from three wells which initially went into production in late October, 1980 from Midvale's Harristown Prospect in Illinois and six wells which commenced production in late December, 1980 from the Company's oil wells in Texas and Oklahoma. As a result, cash flow from operations for the year ended March 31, 1981 amounted to \$0.15 per share. Midvale's earnings before income tax amounted to \$258,498 while net earnings after taxes amounted to \$143,100 or \$0.09 per share. Shareholders' equity amounted to \$0.43 per share.

In the first year of operations, Midvale developed proven oil reserves of 142,877 barrels and 280,000 Mcf in gas reserves. Independent engineer reports attribute \$7,073,100 (Canadian funds) undiscounted value to these proven developed reserves.

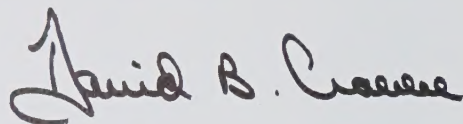
All of the Company's wells were drilled through its wholly-owned subsidiary, Midvale Petroleum, Inc., in the United States and it is expected that the Company will continue to pursue this approach until the business and political climate in Canada changes dramatically. We share industry's extreme disappointment with the inability of the Canadian federal government and the provincial governments in Canada to reach some accord on a pricing agreement, tax system and ownership of oil and gas properties. The new National Energy Program will reduce the cash flow dramatically for all oil and gas companies in Canada, thereby preventing any re-investment in the Canadian oil industry and subsequent energy self-sufficiency. Government must allow the oil and gas producer the opportunity to obtain a return on their capital investment. Should the oil industry and both federal and provincial governments not finalize an agreement in the very near future, then not only does the Canadian oil industry suffer, but each Canadian citizen will suffer now and for many years to come.

The Directors of Midvale are adamant that the Company must continue to operate in areas where cash flow can be obtained and in those areas where it is beneficial for the Company to establish a sound asset base. The Company is quickly generating good cash flow and it is projected that the Company's cash flow for the year ended March 31, 1982 will exceed \$0.50 per share in only its second year of operation.

The Company is currently negotiating a program in Oklahoma whereby Midvale will expend (U.S.) \$1,000,000 to acquire oil and gas lease positions, which are located on good drillable prospects, subject to the approval of the regulatory bodies. The Company will then retain a carried interest, usually to the casing point of the earning well, in each of these prospects. This will provide the opportunity for Midvale to be exposed to numerous exploratory programs without incurring the risk associated with drilling. This should add significantly to the Company's increasing asset base.

Drilling, cash flow and earnings are all expected to increase dramatically for the period ended March 31, 1982, the Company's next fiscal year end. We look forward with pride to another period of significant growth and aggressiveness as the Company continues to improve upon its financial position. Midvale will now be in a better position to commit to larger exploration programs in the United States. I wish to express the appreciation of the directors and officers of Midvale for the continuing support of the shareholders.

SUBMITTED ON BEHALF OF THE BOARD,

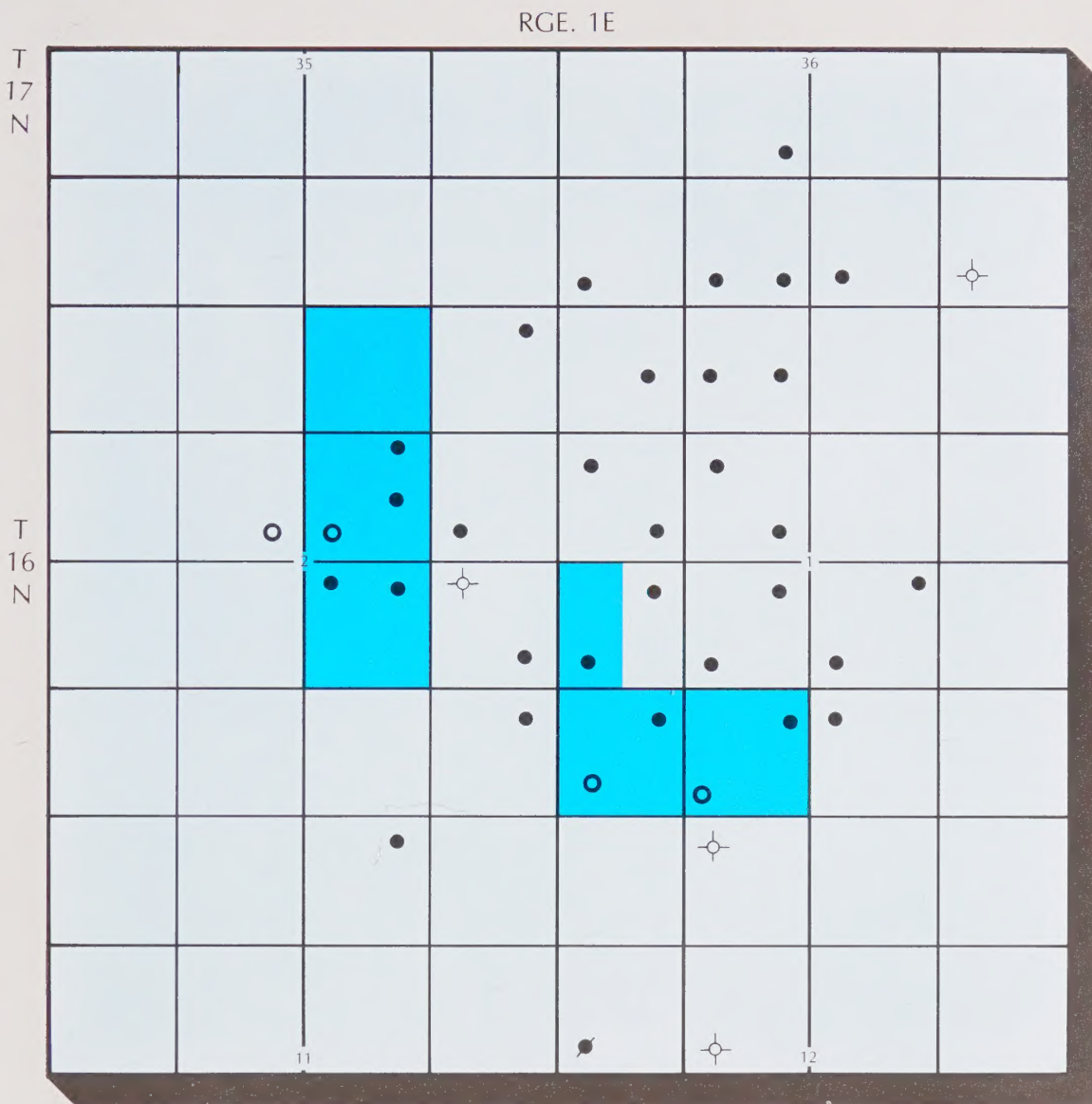


David B. Crabbe, President



## EXPLORATION AND DEVELOPMENT

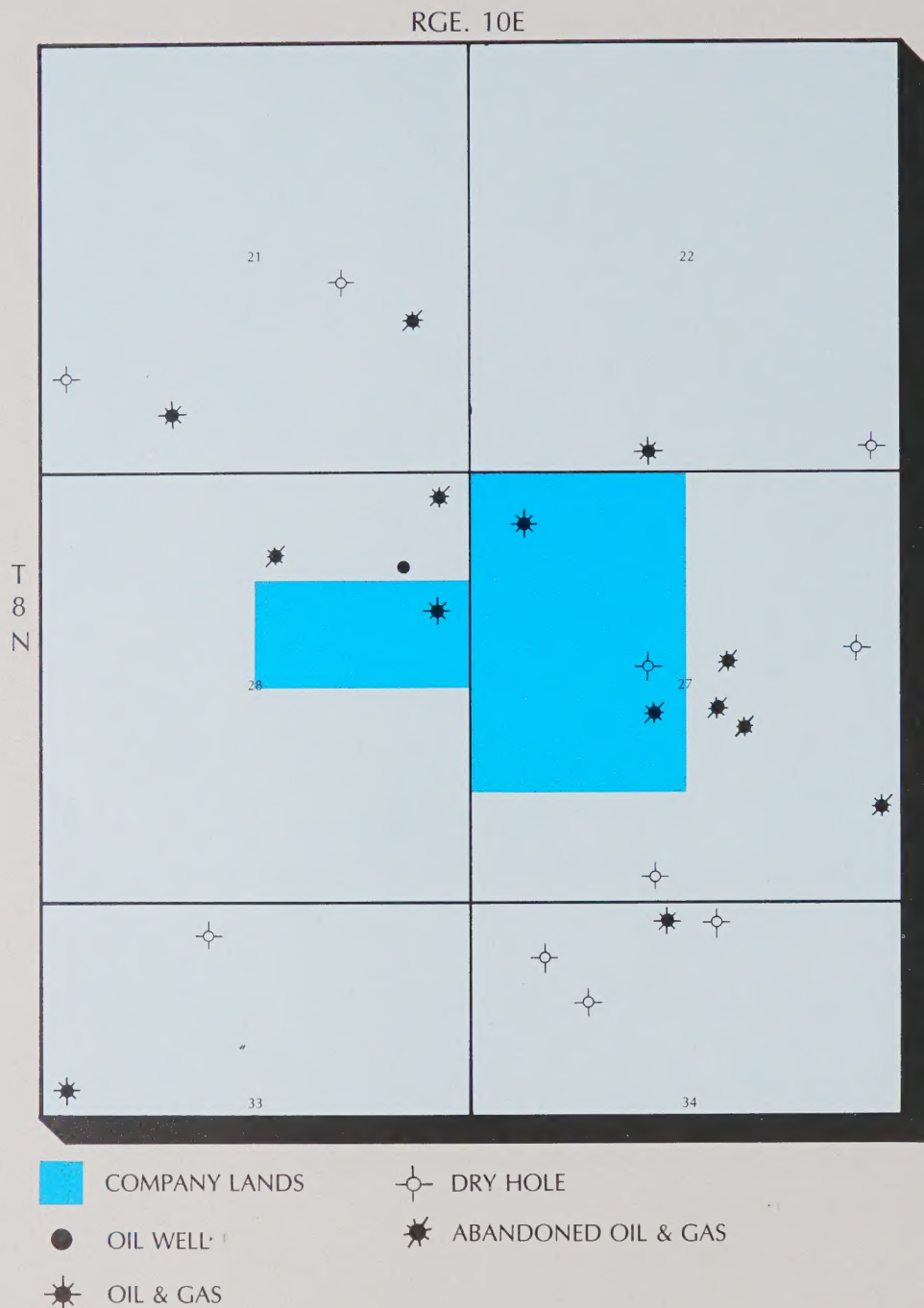
### HARRISTOWN PROJECT MACON COUNTY, ILLINOIS



## ILLINOIS

A significant development in the growth of the Company occurred with the initial discovery of the Company's first oil well in its Harristown Prospect in Macon County, Illinois. Since that time, six additional wells have been drilled on this acreage now providing the Company with revenues of approximately \$100,000 per month. Prior to the drilling of the sixth and seventh wells, an independent engineering evaluation indicated that the Company's share of future cash flows discounted at 15% was \$3,546,608 (Canadian funds) for this prospect. These two new wells are presently producing at the rate of 50 barrels of oil per day. Midvale has a 37.5% working interest in this prospect.

# GREASY CREEK PROSPECT HUGHES COUNTY, OKLAHOMA



## OKLAHOMA

### GREASY CREEK PROSPECT

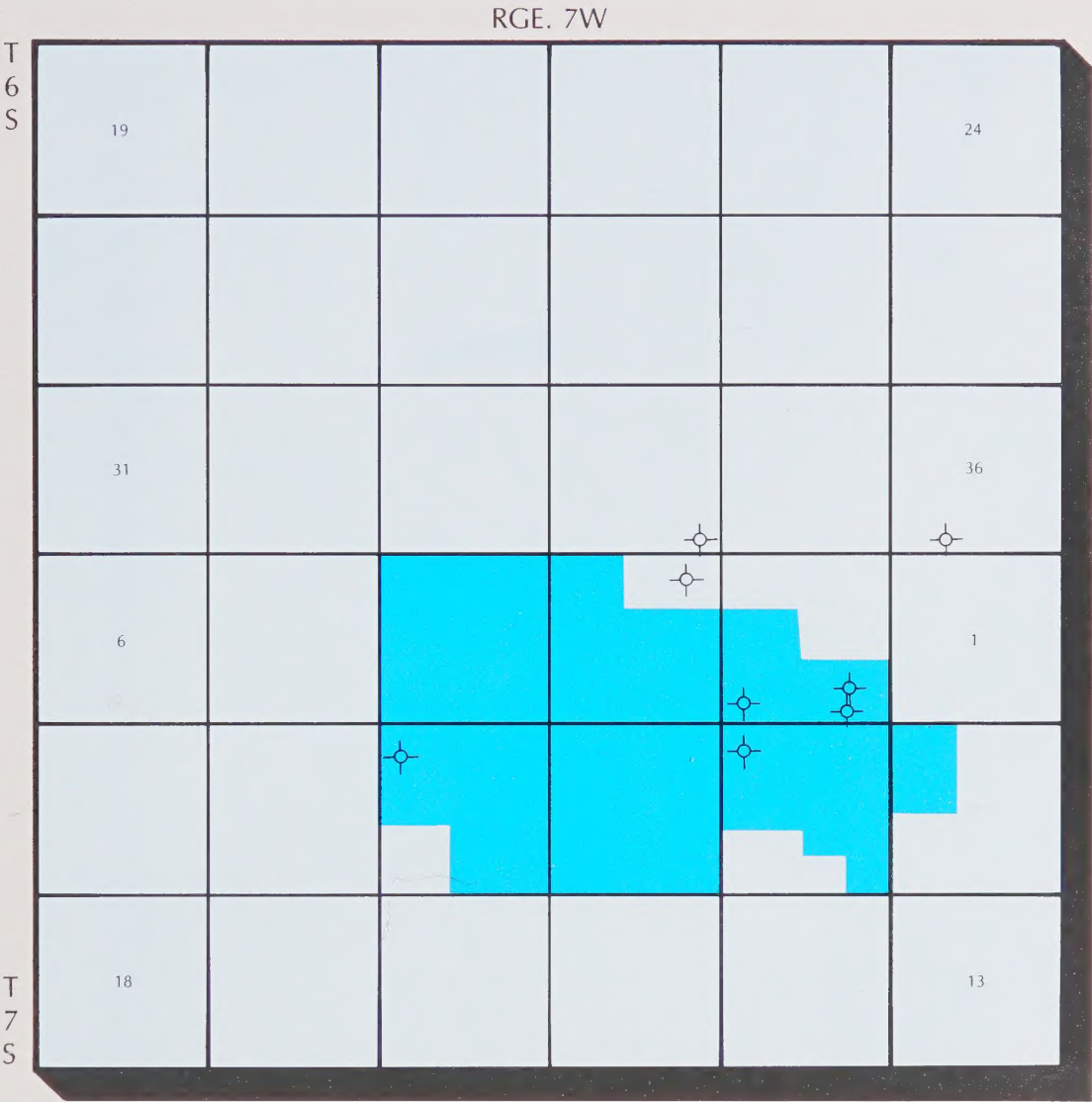
During 1980, the Company acquired a 5% working interest in this prospect by participating in the drilling of a 4,390 foot test well in Hughes County, Oklahoma. Subsequently, an offset well was drilled resulting in two multi-zone oil and gas wells. A recent independent engineering evaluation indicated that the Company's share of future cash flow based upon proven reserves in these two wells undiscounted is \$2,169,902 (Canadian funds) and discounted at 15% is \$625,459 (Canadian funds). Further development drilling will commence this summer.



**SOUTH RYAN PROSPECT  
JEFFERSON COUNTY, OKLAHOMA**



MIDVALE PETROLEUMS LTD.



 COMPANY LANDS

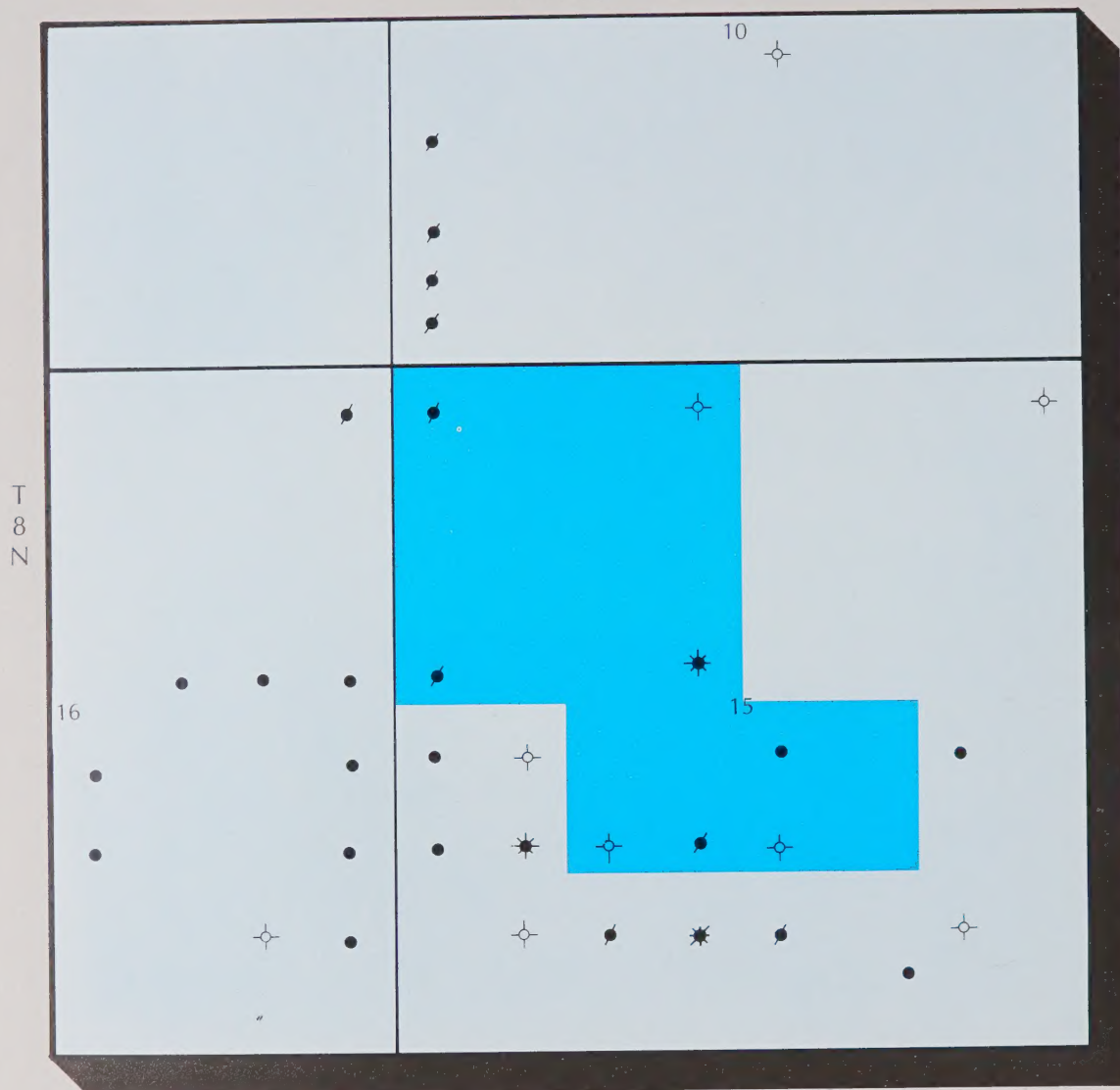
WORKING INTEREST  
4.5313%








*SOUTH RYAN PROSPECT*

Midvale acquired a 4.53125% working interest in approximately 2,500 net acres of mineral leases in Jefferson County, Oklahoma by drilling a 5,600 Arbuckle test well in March, 1981. The well was subsequently abandoned as a dry hole. However, there has been tremendous interest in this prospect and negotiations are currently under way to farmout the acreage with the farmees conducting a detailed seismic program since it has been proposed that this large structure has not been fully developed especially after reviewing the logs of all wells drilled in this area. This area has tremendous potential for significant oil and gas reserves.

# EMERALD PROSPECT SEMINOLE COUNTY, OKLAHOMA

RGE. 8E



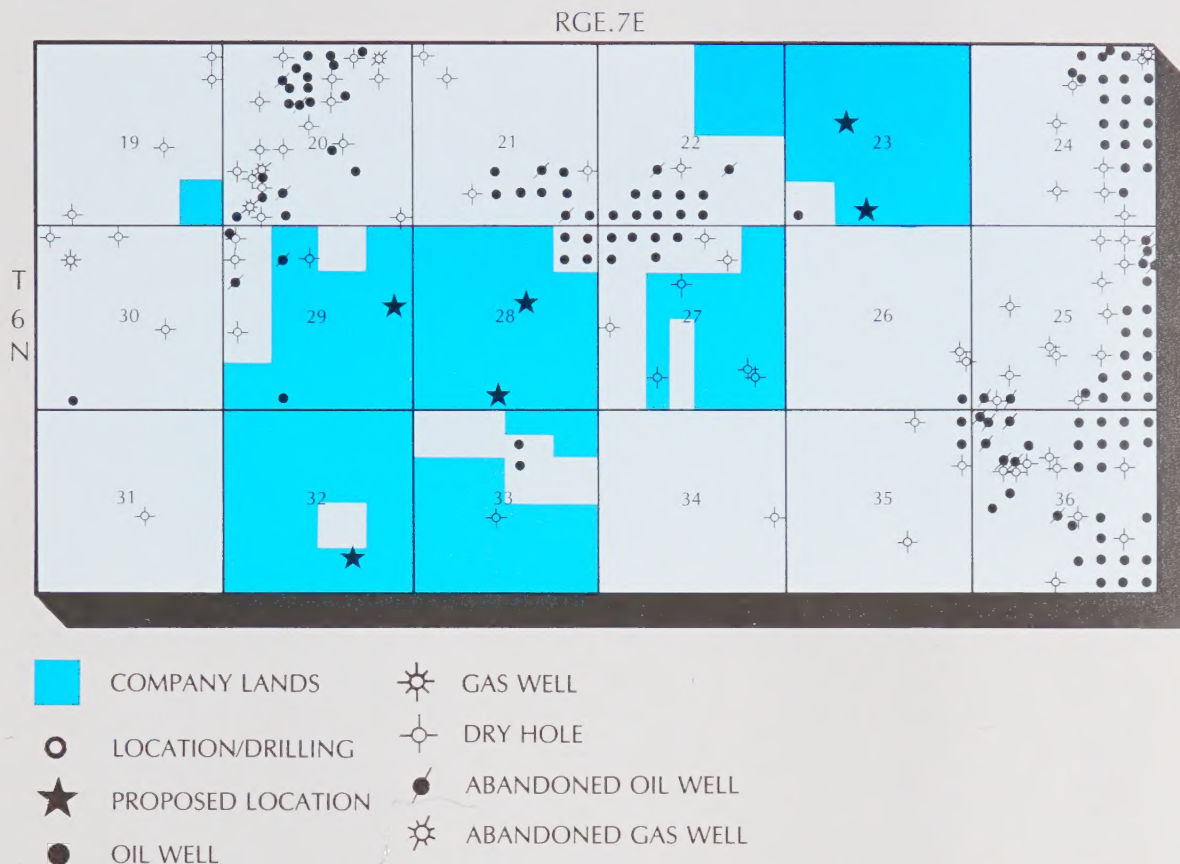
- |   |               |   |                     |
|---|---------------|---|---------------------|
|  | COMPANY LANDS |  | ABANDONED OIL & GAS |
|  | OIL WELL      |  | ABANDONED OIL WELL  |
|  | GAS WELL      |   |                     |
|  | OIL & GAS     |   |                     |
|  | DRY HOLE      |   |                     |

## EMERALD PROSPECT

The Company recently drilled a 4,362 foot test well in Seminole County, Oklahoma to earn a 10% working interest. This well has not yet been completed but it is estimated that it is a commercial oil and gas well with more potential in offset locations which should be drilled later this year.



# ANTARES PROSPECT SEMINOLE COUNTY, OKLAHOMA



The Company recently committed to participate in the drilling of four (4) test wells in Seminole County, Oklahoma to earn a 17.5% working interest subject to the approval of the regulatory bodies. The Company will earn its interest in approximately 3,050 gross lease acres and 2,400 net lease acres in an area which has yielded substantial production from the Calvin, Senora, Gilcrease, Cromwell and Wilcox Sands. These initial wells are expected to be drilled by September, 1981.

## TEXAS

Midvale Petroleum, Inc. acquired a 4% working interest in approximately 11,500 acres of oil and gas leases located in Frio, Dimmit and Zavala counties in Texas during the latter part of 1980. Subsequently, six oil wells were drilled and completed as Austin Chalk wells and are now producing. However, the Company contemplates that they will concentrate their efforts in other areas which should generate better cash flow to Midvale. As a consequence, the Company is in the process of selling its interest in the program.

# Consolidated Financial Statements

FOR THE YEAR ENDED  
MARCH 31, 1981

## AUDITORS' REPORT

To the Shareholders of  
Midvale Petroleum Ltd.

We have examined the consolidated balance sheet of Midvale Petroleum Ltd. as at March 31, 1981 and the consolidated statements of earnings and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at March 31, 1981 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding period.

Calgary, Canada  
June 5, 1981



Chartered Accountants



# CONSOLIDATED BALANCE SHEET AS AT MARCH 31, 1981

## ASSETS

	<u>1981</u>	<u>1980</u>
CURRENT ASSETS		
Cash and term deposits	\$191,582	\$105,000
Accounts receivable	<u>74,570</u>	<u>—</u>
	<u>266,152</u>	<u>105,000</u>
ADVANCES TO JOINT VENTURE PARTNERS	<u>28,391</u>	<u>—</u>
PROPERTY AND EQUIPMENT		
Petroleum and natural gas leases and rights including exploration, development and equipment thereon, at cost	630,718	1,500
Less accumulated depreciation and depletion	<u>23,706</u>	<u>—</u>
	<u>607,012</u>	<u>1,500</u>
INCORPORATION COSTS	<u>—</u>	<u>816</u>
	<u>\$901,555</u>	<u>\$107,316</u>

## LIABILITIES

CURRENT LIABILITIES		
Accounts payable and accrued liabilities	<u>\$ 27,870</u>	<u>\$ 1,566</u>
DEFERRED INCOME TAXES	<u>78,898</u>	<u>—</u>

## SHAREHOLDERS' EQUITY

CAPITAL STOCK (note 2)		
Authorized		
10,000,000 Common shares without par value		
Issued		
1,900,000 Shares (1980 - 1,350,000 shares)	651,687	105,750
RETAINED EARNINGS	<u>143,100</u>	<u>—</u>
	<u>794,787</u>	<u>105,750</u>
	<u>\$901,555</u>	<u>\$107,316</u>

Approved by the Board

 Director

 Director

MIDVALE PETROLEUMS LTD.

**CONSOLIDATED STATEMENT OF EARNINGS AND  
RETAINED EARNINGS (note 4)  
YEAR ENDED MARCH 31, 1981**

Revenue	
Petroleum and natural gas sales	\$302,958
Interest	<u>14,520</u>
	<u>317,478</u>
Expenses	
Production	5,615
Professional fees	9,307
Transfer agent and listing fees	7,860
Management fees	4,500
Office and other	7,992
Depreciation and depletion	<u>23,706</u>
	<u>58,980</u>
Earnings before income taxes	258,498
Deferred income taxes	<u>115,398</u>
NET EARNINGS, BEING RETAINED EARNINGS AT END OF YEAR	<u>\$143,100</u>
EARNINGS PER SHARE	<u>\$0.09</u>

**CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION**

	Year Ended March 31, 1981	From Incorporation on March 6, 1980 to March 31, 1980
WORKING CAPITAL DERIVED FROM		
Operations	\$283,020	\$ —
Issue of capital stock	<u>509,437</u>	<u>105,750</u>
	<u>792,457</u>	<u>105,750</u>
WORKING CAPITAL APPLIED TO		
Additions to property and equipment	629,218	1,500
Incorporation costs	—	816
Advances to joint venture partners	<u>28,391</u>	<u>—</u>
	<u>657,609</u>	<u>2,316</u>
INCREASE IN WORKING CAPITAL	134,848	103,434
WORKING CAPITAL AT BEGINNING OF PERIOD	<u>103,434</u>	<u>—</u>
WORKING CAPITAL AT END OF PERIOD	<u>\$238,282</u>	<u>\$103,434</u>



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### YEAR ENDED MARCH 31, 1981

#### 1. ACCOUNTING POLICIES

##### (a) Consolidation

These consolidated financial statements include the accounts of Midvale Petroleum Ltd. and its wholly-owned subsidiary, Midvale Petroleum, Inc.

##### (b) Petroleum and Natural Gas Operations

The Company follows the full cost method of accounting for petroleum and natural gas operations whereby all costs of exploration for and development of petroleum and natural gas reserves are capitalized. Costs include land acquisition costs, geological and geophysical costs, carrying charges on non-producing properties, costs of drilling both productive and non-productive wells and related overhead expenses. Such costs, net of proceeds from minor disposals of property, are accumulated and depleted on a country by country basis using the unit of production method based on estimated proven recoverable reserves. In calculating depletion, natural gas reserves are converted to equivalent units of crude oil based on the relative energy content of each product.

Gains or losses are recognized upon the sale or disposition of properties when the petroleum and natural gas reserves of those properties are significant in relation to the Company's total reserves in the particular area of interest.

A substantial portion of the Company's petroleum and natural gas properties are in the exploratory and development stage. Whether these properties contain reserves that are economically recoverable has not yet been determined. The recoverability of the carrying value of petroleum and natural gas properties is dependent on the existence of economically recoverable reserves.

All the Company's petroleum and natural gas exploration, development and production activities are conducted jointly with others. These financial statements reflect only the Company's proportionate interest in such activities. The Company, Zodiac Resources Ltd., and Tor-Cal Resources Limited have a common management group. All are active in the petroleum and natural gas business and participate in a number of the same exploration and development activities at essentially the same cost per percentage of participation.

Depreciation is provided on production equipment and related facilities using the unit of production method based on estimated proven recoverable reserves.

##### (c) Foreign Currency Translation

The accounts of the foreign subsidiary are translated into Canadian dollars on the following basis: current assets and all liabilities at the rate of exchange at the date of the consolidated balance sheet; all other assets and applicable depreciation and depletion at rates prevailing when the assets were acquired; and, revenue and expenses at the average rate of exchange during the period. Gains or losses resulting from the translation practices are reflected in property and equipment and subject to the amortization policies outline in note 1(b).

##### (d) Income Taxes

The Company follows the tax allocation method of accounting under which the income tax provision is based on earnings reported in the consolidated financial statements. Accordingly, the Company makes full provision for income taxes deferred as a result of claiming capital cost allowance and exploration and development costs in excess of the amount provided for depreciation and depletion in the consolidated financial statements.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

### 2. CAPITAL STOCK

Since incorporation on March 6, 1980, the Company has issued capital stock as follows:

	<u>Number of Shares</u>	<u>Ascribed Consideration</u>
Issued for cash	600,000	\$105,000
Issued for assignment of interest in petroleum and natural gas properties from a director and officer	<u>750,000</u>	<u>750</u>
Balance at March 31, 1980	1,350,000	105,750
Issued for cash:		
By prospectus, less expenses of issue net of income tax benefit (\$36,500)	400,000	358,437
Pursuant to share option agreement	<u>150,000</u>	<u>187,500</u>
Balance at March 31, 1981	<u>1,900,000</u>	<u>\$651,687</u>

As at March 31, 1981, 750,000 shares of the Company are held in escrow and are not to be released without the consent of the Superintendent of Brokers of British Columbia.

### 3. SEGMENTED INFORMATION

The Company operates solely in one industry and geographic area: the acquisition, exploration and development of petroleum and natural gas properties and the sale of production from such properties in the United States.

### 4. COMPARATIVE FIGURES

Prior to April 1, 1980, the activities of the Company were in the pre-operating stage and all expenses were capitalized; accordingly, comparative figures for 1980 are not provided in the consolidated statement of earnings and retained earnings.

### 5. STATUTORY INFORMATION

During the year, the consolidated group of companies paid no remuneration to the Company's directors in their capacity as directors and paid no remuneration to officers of the Company.

### 6. RELATED PARTY TRANSACTIONS

During the year the group paid management fees of \$4,500 to a company owned by a director and officer of the Company.

Reference is made to notes 1(b) and 2.





